

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Southern Clinton County Municipal Utilities A	County Clinton
Fiscal Year End 12/31/2007	Opinion Date 3/28/2008	Date Audit Report Submitted to State 4/16/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

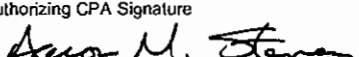
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe) N/A	<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.		Telephone Number 517-351-6836	
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
Zip 48823			
Authorizing CPA Signature 	Printed Name Aaron M. Stevens, CPA	License Number 1101024055	

**Southern Clinton County
Municipal Utilities Authority
DeWitt, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Southern Clinton County Municipal Utilities Authority

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INDEPENDENT AUDITOR'S REPORT

To the Board of the
Southern Clinton County Municipal Utilities Authority
DeWitt, Michigan

We have audited the accompanying financial statements of the Southern Clinton County Municipal Utilities Authority as of and for the years ended December 31, 2007 and 2006, as listed in the Table of Contents. These financial statements are the responsibility of the Southern Clinton County Municipal Utilities Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Southern Clinton County Municipal Utilities Authority as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise Southern Clinton County Municipal Utilities Authority's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of the Southern Clinton County Municipal Utilities Authority. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 28, 2008

SOUTHERN CLINTON COUNTY MUNICIPAL UTILITIES AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

The intent of the management discussion and analysis is to provide highlights of Southern Clinton County Municipal Utilities Authority's (SCCMUA) financial activities for the Fiscal Year ended December 31, 2007. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- ❖ **NET ASSETS:** The assets of SCCMUA exceeded its liabilities by \$9,872,461. Of this amount, \$265,670 (unrestricted net assets) may be used to meet SCCMUA's ongoing obligations to citizens and creditors. The total net assets increased by \$500,327. Total assets were more than one year ago due to equipment purchases, a new vehicle, construction of a mudwell building, and replacement of two clarifier drives.
- ❖ **Operating Revenues and Expenses:** Revenues were lower for the fiscal year ending December 31, 2007. This was due to the completion of the solids handling project that is no longer funded.
- ❖ **Non-Operating Revenues and Expenses:** Investment income was \$195,382 for fiscal year ending December 31, 2007.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of SCCMUA, including notes that explain in more detail some of the information in the financial statements.

As a municipal wastewater treatment plant, SCCMUA engages in primarily enterprise operations in various separate and distinct activities. These activities include but are not limited to: 1) treatment of domestic and industrial wastewater; 2) maintenance of sanitary sewers; and 3) lift station operation and maintenance. SCCMUA was created by the City of DeWitt, and DeWitt, Bath and Watertown Charter Townships to provide collection, treatment and disposal of sewage for the benefit of their constituents.

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of SCCMUA using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of SCCMUA's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to their creditors (liabilities). It also provides the basis for evaluating the capital structure of SCCMUA and assessing their liquidity and financial flexibility.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of SCCMUA's operations over the past year.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF SCCMUA

The Statement of Net Assets and the Statement of Activities provide information to determine how SCCMUA did financially during Fiscal Year 2007. The net assets, or the difference between assets and liabilities, and the changes in them can indicate whether financial health is improving or deteriorating over time. However, other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation also need to be considered in determining SCCMUA's financial health.

SOUTHERN CLINTON COUNTY MUNICIPAL UTILITIES AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

NET ASSETS

SCCMUA's Condensed Statement of Net Assets and Statement of Revenue, Expenses and Changes in Fund Net Assets are presented in the following Tables. A comparative analysis of data will be presented to the fiscal year 2006.

TABLE 1
CONDENSED STATEMENT OF NET ASSETS

	<u>12/31/2007</u>	<u>12/31/2006</u>
Current and Other Assets	\$ 3,631,311	\$ 3,123,233
Capital Assets	<u>6,359,070</u>	<u>6,464,697</u>
Total Assets	9,990,381	9,587,930
Current Liabilities	80,187	178,257
Noncurrent Liabilities	<u>37,732</u>	<u>37,539</u>
Total Liabilities	117,920	215,796
Invested in Capital Assets	6,359,070	6,464,497
Restricted	3,247,721	2,390,112
Unrestricted	<u>265,670</u>	<u>517,325</u>
Total Net Assets	<u>\$ 9,872,461</u>	<u>\$ 9,372,134</u>

TABLE 2
CONDENSED STATEMENT OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	<u>2007</u>	<u>2006</u>
Operating Revenues	\$ 2,980,662	\$ 3,866,090
Non-operating Revenues	<u>195,382</u>	<u>155,122</u>
Total Revenues	3,176,044	4,041,212
Depreciation Expense	312,256	188,361
Other Operating Expense	<u>2,363,461</u>	<u>2,382,244</u>
Total Expenses	<u>2,675,717</u>	<u>2,570,605</u>
Changes in Net Assets	500,327	1,470,607
Beginning Net Assets	<u>9,372,134</u>	<u>7,901,527</u>
Ending Net Assets	<u>\$ 9,872,461</u>	<u>\$ 9,372,134</u>

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows how total revenues and expenditures increased the net assets. In 2005, Capital Consultants performed a Wastewater Rate Study. This will determine the future user fees that the municipalities must charge to continue operation of this facility. The Depreciation expense of \$312,256 is a noncash expense, which represents the reduction in the value of the facility and system.

SOUTHERN CLINTON COUNTY MUNICIPAL UTILITIES AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

The rate charged to municipal users is determined by each municipality based on the most current Wastewater Rate Study. The budget is made up of several parts. Each municipality is billed 100% for their collection system budget. The budget for the Plant and Administrative costs are billed based on each municipality's ownership in the Authority. The Process costs are billed based on the previous full years flow into the facility by each municipality. Industrial Pretreatment charges are based on the adopted budget for that department, divided by the actual number of Industrial and Significant Industrial users. The Annual Replacement reserve is used to pay for capital improvements such as computer upgrades, plant improvements and equipment.

BUDGETARY HIGHLIGHTS

SCCMUA is an enterprise fund and is not required to adopt an annual budget. However, the SCCMUA Authority Board does adopt an annual Operating Budget and a seven-year Capital Improvement Plan following a public hearing. The Operating Budget includes proposed expenses and the means of financing them. The SCCMUA's operating budget remains in effect but can be revised with SCCMUA Authority Board approval prior to the December 31 year end.

A combined statement of revenues and expenses for 2007 is presented in TABLE 3.

TABLE 3
Southern Clinton County Municipal Utilities Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES

Year Ended December 31, 2007

	Investment Earnings and Interest Clearing Fund	Sewer System	Industrial Pretreatment Program	Total
REVENUES				
Charges for services	\$ -	\$ 2,938,730	\$ 29,811	\$ 2,968,541
Interest and rents	195,382	-	-	195,382
Other	-	12,121	-	12,121
TOTAL REVENUES	195,382	2,950,851	29,811	3,176,044
EXPENSES				
Salaries	-	762,957	6,572	769,529
Benefits	-	293,094	2,075	295,169
Motor vehicle and mileage	-	28,119	870	28,989
Utilities	-	357,189	-	357,189
Regulatory fees	-	8,864	-	8,864
Insurance	-	83,626	-	83,626
Repairs and maintenance	-	421,626	-	421,626
Education and training	-	23,704	1,543	25,247
Professional services	-	51,194	3,122	54,316
Supplies	-	73,096	1,919	75,015
Solids handling	-	60,884	-	60,884
Odor Control	-	59,216	-	59,216
Miscellaneous	-	7,526	-	7,526
Equipment depreciation	-	312,256	-	312,256
Refund to municipalities	-	116,265	-	116,265
TOTAL EXPENSES	-0-	2,659,616	16,101	2,675,717
REVENUES OVER EXPENSES	\$ 195,382	\$ 291,235	\$ 13,710	\$ 500,327

SOUTHERN CLINTON COUNTY MUNICIPAL UTILITIES AUTHORITY

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL ASSETS

At the end of 2007, SCCMUA invested \$206,629 in equipment for the wastewater treatment plant. A new service truck, replacement RBC bearings, replacement phone system, replacement clarifier drives, and a new mudwell building were purchased. In addition, the SCCMUA made improvements to the system. SCCMUA has a seven year Asset Management Plan that includes continued improvements for controls, radios, lift station, and exterior work on the plant. The goal of any asset management program is to maintain the assets in as close to "new" condition to eliminate the need for more costly repairs and/or replacement. By keeping the assets in "new", "excellent," or "good" condition (depending on the Asset Management terms being used), experience has shown that the ultimate costs are substantially reduced. A rule of thumb is that for every \$1 of capital maintenance, nearly \$4 in more costly repairs and replacements are saved.

TABLE 4
CAPITAL ASSETS

	<u>2007</u>	<u>2006</u>
Machinery and Equipment	<u>\$ 8,253,395</u>	<u>\$ 8,046,766</u>
Total at Historical Cost	8,253,395	8,046,766
Less: Accumulated Depreciation	<u>(1,894,325)</u>	<u>(1,582,069)</u>
Net Property and Equipment	<u>\$ 6,359,070</u>	<u>\$ 6,464,697</u>

DEBT ADMINISTRATION

At the end of the 2007 fiscal year, the Authority had no outstanding debt. This was unchanged from the 2006 fiscal year.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of SCCMUA's finances and to demonstrate its accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact Lisa Mead, Secretary/Treasurer, SCCMUA 3671 W. Herbison Rd, DeWitt, MI 48820 or by phone at (517) 669-8311.

BASIC FINANCIAL STATEMENTS

Southern Clinton County Municipal Utilities Authority

STATEMENT OF NET ASSETS

December 31, 2007 and 2006

	2007	2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 1,139,463	\$ 1,256,706
Investments	701,429	1,260,784
Accounts receivable	8,013	1,864
Total current assets	1,848,905	2,519,354
Noncurrent assets		
Investments	1,782,406	603,879
Capital assets, net of accumulated depreciation	6,359,070	6,464,697
Total noncurrent assets	8,141,476	7,068,576
TOTAL ASSETS	9,990,381	9,587,930
LIABILITIES AND NET ASSETS		
LIABILITIES		
Current liabilities		
Accounts payable	37,070	135,566
Accrued wages payable	20,623	20,020
Other accrued liabilities	334	317
Current portion of vacation and sick pay	22,160	22,354
Total current liabilities	80,187	178,257
Noncurrent liabilities		
Accrued vacation and sick pay	37,733	37,539
TOTAL LIABILITIES	117,920	215,796
NET ASSETS		
Invested in capital assets	6,359,070	6,464,697
Restricted for:		
Capital replacement	3,226,946	2,370,610
Other purposes	20,775	19,502
Unrestricted	265,670	517,325
TOTAL NET ASSETS	\$ 9,872,461	\$ 9,372,134

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

Years Ended December 31, 2007 and 2006

	<u>2007</u>	<u>2006</u>
OPERATING REVENUES		
Charges for services	\$ 2,968,541	\$ 3,874,427
Other	<u>12,121</u>	<u>11,663</u>
TOTAL OPERATING REVENUES	2,980,662	3,886,090
OPERATING EXPENSES		
Salaries	769,529	734,380
Benefits	295,169	288,327
Motor vehicle and mileage	28,989	32,428
Utilities	357,189	314,609
Regulatory fees	8,864	8,371
Insurance	83,626	84,258
Repairs and maintenance	421,626	383,801
Education and training	25,247	22,057
Professional services	54,316	66,331
Supplies	75,015	72,568
Solids handling	60,884	55,835
Odor Control	59,216	28,939
Miscellaneous	7,526	5,490
Equipment depreciation	312,256	188,361
Refund to municipalities	<u>116,265</u>	<u>284,850</u>
TOTAL OPERATING EXPENSES	<u>2,675,717</u>	<u>2,570,605</u>
OPERATING INCOME	304,945	1,315,485
NONOPERATING REVENUE		
Interest	<u>195,382</u>	<u>155,122</u>
CHANGE IN NET ASSETS	500,327	1,470,607
Net assets, beginning of year	<u>9,372,134</u>	<u>7,901,527</u>
Net assets, end of year	<u><u>\$ 9,872,461</u></u>	<u><u>\$ 9,372,134</u></u>

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF CASH FLOWS

Years Ended December 31, 2007 and 2006

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	\$ 2,974,513	\$ 3,894,937
Cash paid to suppliers	(1,397,259)	(1,983,655)
Cash paid to employees	(1,064,078)	(1,019,200)
NET CASH PROVIDED BY OPERATING ACTIVITIES	513,176	892,082
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	(206,629)	(2,827,584)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	195,382	155,122
Purchase of investments	(724,001)	(154,591)
Maturities of investments	104,829	553,393
NET CASH PROVIDED (USED) BY INVESTING ACTIVITIES	(423,790)	553,924
NET (DECREASE) IN CASH AND CASH EQUIVALENTS DURING YEAR	(117,243)	(1,381,578)
Cash and cash equivalents, beginning of year	1,256,706	2,638,284
Cash and cash equivalents, end of year	\$ 1,139,463	\$ 1,256,706
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 304,945	\$ 1,315,485
Adjustments to reconcile operating income to net cash provided by operating activities		
Depreciation	312,256	188,361
(Increase) decrease in accounts receivable	(6,149)	8,847
(Decrease) in accounts payable	(98,496)	(624,118)
Increase in accrued liabilities	620	3,507
NET CASH PROVIDED BY OPERATING ACTIVITIES	\$ 513,176	\$ 892,082

See accompanying notes to financial statements.

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Southern Clinton County Municipal Utilities Authority (SCCMUA) was created under Public Act 233 of 1955, as amended, by contractual agreement between DeWitt Charter Township, Bath Charter Township, the City of DeWitt, and Watertown Charter Township. The SCCMUA Board is made up of five (5) members appointed by DeWitt Charter Township, two (2) members appointed by Watertown Charter Township, two (2) members appointed by Bath Charter Township, and one (1) member appointed by the City of DeWitt. The purpose of the SCCMUA is to operate, maintain, administer, and manage the sewage disposal system for the benefit of the constituent municipalities.

The allocation of costs of the SCCMUA related to the constituent municipalities is either directly charged based on direct benefit or is based on ownership percentages and/or usage of the system as measured by billable flow. The following details the ownership percentages and billable flow percentages that were utilized for the year ended December 31, 2007.

	<u>Ownership</u>	<u>Billable Flow</u>
DeWitt Charter Township	55.7576 %	62.39 %
Bath Charter Township	16.7273	26.29
City of DeWitt	11.3131	8.32
Watertown Charter Township	16.2020	3.00

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Southern Clinton County Municipal Utilities Authority. The SCCMUA is considered a "joint venture" of the constituent municipalities.

2. Basis of Presentation

The operations of the SCCMUA are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. The SCCMUA's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of this fund are included on the Statement of Net Assets. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

The Proprietary Fund is accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred.

5. Budgets and Budgetary Accounting

The annual budget of the SCCMUA is prepared by SCCMUA management and approved by the SCCMUA Budget and Finance Committee. The proposed budget and allocation of costs are submitted to the municipalities in August prior to the beginning of each fiscal year. The municipalities advise SCCMUA of any objections to the proposed budget and allocation and then each municipality Board approves the budget. The SCCMUA Board then adopts the approved budgets in November prior to the beginning of each fiscal year.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consists of the SCCMUA checking and money market accounts.

Investments consist of pooled investment funds and U.S. Government securities with an original maturity of over 90 days. The U.S. Government securities and pooled investment funds are stated at market value.

7. Capital Assets

The accounting and reporting treatment applied to the capital assets and associated with a fund are determined by its measurement focus. The proprietary fund is accounted for on a cost of services or "capital maintenance" measurement focus. This means that all assets and all liabilities (whether current or noncurrent) associated with the activity are included on the Statement of Net Assets.

Capital assets are recorded at cost, or if donated, at fair market value at the date of donation. Expenditures that materially extend the useful life of existing assets are capitalized. Depreciation of all exhaustible capital assets used by the proprietary fund is charged as an expense against operations. Accumulated depreciation is reported on the Statement of Net assets. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets.

The estimated useful lives are:

Machinery and equipment	3 - 50 years
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The costs related to original construction of the plant are recorded by each constituent municipality in their financial statements.

8. Accrued Vacation and Sick Leave

The SCCMUA employees are granted vacation and sick leave in varying amounts. In the event of termination, depending upon cause, an employee is paid for certain portions of unused accumulated vacation and sick time. The dollar amount of those rights amounted to \$59,893 at December 31, 2007. The amounts of \$22,160 and \$37,733 have been reported as current and noncurrent liabilities, respectively, on the Statement of Net Assets.

9. Comparative Data

Comparative data for the prior year has been presented in some of the accompanying financial statements in order to provide an understanding of changes in the fund's financial position and operations of various components of the fund.

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the SCCMUA is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures more than 270 days after the date of purchase.
4. The United States government or Federal agency obligations repurchase agreements.
5. Bankers acceptances of United States Banks.
6. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State funds, securities issued by the Federal Loan Mortgage Association, Federal National Mortgage Corporation or Government National Mortgage Association.

Deposits

There is a custodial risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. As of December 31, 2007, the carrying amount of SCCMUA's deposits was \$80,862 and the bank balance was \$137,075, of which \$130,000 was covered by federal deposit insurance. The balance of \$7,075 was uninsured and uncollateralized. The Authority had \$200 of imprest cash on hand.

Investments

As of December 31, 2007, SCCMUA had the following investments:

<u>INVESTMENT TYPE</u>	<u>Fair Value</u>	<u>Bank Balance</u>	<u>Standard & Poor's Rating</u>	<u>Weighted Average Maturity</u>
Insured or registered for which the securities are held by SCCMUA's agent in SCCMUA's name				
U.S. Treasury securities	\$ 2,483,835	\$ 2,483,835	AAA	59 days
Treasury Portfolio Class B	195,459	195,459	AAA	N/A
Uncategorized investment fund	<u>862,942</u>	<u>862,942</u>	Not Rated	N/A
	<u>\$ 3,542,236</u>	<u>\$ 3,542,236</u>		

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Credit Risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's).

Interest Rate Risk

The authority will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the Authority's cash requirements.

Concentration of Credit Risk

SCCMUA's concentration of credit risk, which is the risk of loss attributed to the magnitude of the Authority's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial Credit Risk

SCCMUA will minimize custodial credit risk, which is the risk of loss due to the failure of the security issuer or backer, by limiting investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the Authority will do business in accordance with Board approved policy.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the Statement of Net Assets, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2007:

Cash and cash equivalents	\$ 1,139,463
Investments - current	701,429
Investments - noncurrent	<u>1,782,406</u>
	<u>\$ 3,623,298</u>

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007, was as follows:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Capital assets being depreciated				
Machinery and equipment	\$ 8,046,766	\$ 206,629	\$ -	\$ 8,253,395
Less accumulated depreciation for				
Machinery and equipment	<u>(1,582,069)</u>	<u>(312,256)</u>	<u>-</u>	<u>(1,894,325)</u>
Total capital assets being depreciated	<u>6,464,697</u>	<u>(105,627)</u>	<u>-0-</u>	<u>6,359,070</u>
Net Capital Assets	<u>\$ 6,464,697</u>	<u>\$(105,627)</u>	<u>\$ -0-</u>	<u>\$ 6,359,070</u>

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: RETIREMENT PLAN

Plan Description

The Authority participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the Authority. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the Authority Board and by negotiation with the Authority's collective bargaining units. The plan requires a 6.04% contribution from union personnel and a 1.2% contribution from non-union personnel. The Authority is required to contribute remaining amounts necessary to fund the plan.

Annual Pension Cost

For year ended December 31, 2007, the Authority's annual pension cost of \$25,487 for the plan was equal to the Authority's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2005, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will increase 2.5% per year (annually) for persons under Benefit E-1 or E-2 after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 1,726,412	\$ 1,874,732	\$ 2,038,430
Actuarial accrued liability (AAL)	1,729,540	1,766,270	1,931,529
Unfunded (overfunded) AAL	3,128	(108,462)	(106,901)
Funded ratio	100 %	106 %	106 %
Covered payroll	695,210	682,471	726,301
UAAL as a percentage of covered payroll	0 %	0 %	0 %

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 21,214	\$ 40,470	\$ 25,487
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE E: RISK MANAGEMENT

The SCCMUA participates in a pool, the Michigan Municipal Risk Management Authority, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The SCCMUA has not been informed of any special assessments being required.

The SCCMUA also participates in a pool, the Michigan Municipal League Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The SCCMUA has not been informed of any special assessments being required.

NOTE F: NET ASSETS

Net assets have been segregated into restricted and unrestricted components. The restricted portions of net assets represent the balances that have been set aside for specific purposes based upon agreements with the constituent municipalities developed through the annual budgeting process. Unrestricted net assets represent the remaining amounts that are available for general operating purposes for the specific functions. The restricted and unrestricted net assets are further segregated by constituent municipality based on operational allocation methodologies (i.e. direct ownership and/or billable flow percentages).

The following provides a detail of the restricted net assets balances as of December 31, 2007:

	<u>DeWitt Charter Township</u>	<u>Bath Charter Township</u>	<u>Watertown Charter Township</u>	<u>City of DeWitt</u>	<u>Total</u>
Invested in capital assets	\$ 3,622,931	\$ 1,385,665	\$ 700,890	\$ 649,584	\$ 6,359,070
Restricted for:					
Capital replacement:					
Plant equipment	285,675	85,703	57,963	83,011	512,352
Process equipment	1,228,692	441,184	222,106	230,285	2,122,267
Sewer system	<u>240,460</u>	<u>171,177</u>	<u>64,557</u>	<u>116,133</u>	<u>592,327</u>
	1,754,827	698,064	344,626	429,429	3,226,946
Other purposes:					
Benefits	<u>11,584</u>	<u>3,475</u>	<u>2,350</u>	<u>3,366</u>	<u>20,775</u>
	<u>\$ 5,389,342</u>	<u>\$ 2,087,204</u>	<u>\$ 1,047,866</u>	<u>\$ 1,082,379</u>	<u>\$ 9,606,791</u>

Southern Clinton County Municipal Utilities Authority

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: NET ASSETS - CONTINUED

The following provides a detail of the unrestricted net assets balances as of December 31, 2007:

	DeWitt Charter <u>Township</u>	Bath Charter <u>Township</u>	Watertown Charter <u>Township</u>	City of DeWitt	<u>Total</u>
Designated for:					
Sewer system	\$ 106,192	\$ 18,707	\$ 23,720	\$ 46,259	\$ 194,878
Industrial pretreatment program	<u>38,811</u>	<u>11,488</u>	<u>10,402</u>	<u>10,091</u>	<u>70,792</u>
	<u>\$ 145,003</u>	<u>\$ 30,195</u>	<u>\$ 34,122</u>	<u>\$ 56,350</u>	<u>\$ 265,670</u>

The following provides a summary of the restricted and unrestricted net assets amounts by constituent municipality:

	DeWitt Charter <u>Township</u>	Bath Charter <u>Township</u>	Watertown Charter <u>Township</u>	City of DeWitt	<u>Total</u>
Restricted	\$ 5,389,342	\$ 2,087,204	\$ 1,047,866	\$ 1,082,379	\$ 9,606,791
Unrestricted	<u>145,003</u>	<u>30,195</u>	<u>34,122</u>	<u>56,350</u>	<u>265,670</u>
	<u>\$ 5,534,345</u>	<u>\$ 2,117,399</u>	<u>\$ 1,081,988</u>	<u>\$ 1,138,729</u>	<u>\$ 9,872,461</u>

OTHER SUPPLEMENTARY INFORMATION

Southern Clinton County Municipal Utilities Authority

COMBINING STATEMENT OF REVENUES AND EXPENSES

Year Ended December 31, 2007

	Investment Earnings and Interest Clearing	Sewer System	Industrial Pretreatment Program	Total
REVENUES				
Charges for services	\$ -	\$ 2,938,730	\$ 29,811	\$ 2,968,541
Interest	195,382	-	-	195,382
Other	-	12,121	-	12,121
TOTAL REVENUES	195,382	2,950,851	29,811	3,176,044
EXPENSES				
Salaries	-	762,957	6,572	769,529
Benefits	-	293,094	2,075	295,169
Motor vehicle and mileage	-	28,119	870	28,989
Utilities	-	357,189	-	357,189
Regulatory fees	-	8,864	-	8,864
Insurance	-	83,626	-	83,626
Repairs and maintenance	-	421,626	-	421,626
Education and training	-	23,704	1,543	25,247
Professional services	-	51,194	3,122	54,316
Supplies	-	73,096	1,919	75,015
Solids handling	-	60,884	-	60,884
Odor Control	-	59,216	-	59,216
Miscellaneous	-	7,526	-	7,526
Equipment depreciation	-	312,256	-	312,256
Refund to municipalities	-	116,265	-	116,265
TOTAL EXPENSES	-0-	2,659,616	16,101	2,675,717
REVENUES OVER EXPENSES	\$ 195,382	\$ 291,235	\$ 13,710	\$ 500,327

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Investment Earnings and Interest Clearing

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	<u>Budget</u>	<u>2007 Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>2006 Actual</u>
REVENUES				
Investment earnings and interest	\$ 27,438	\$ 195,382	\$ 167,944	\$ 155,122
EXPENSES	<u>-</u>	<u>-</u>	<u>-0-</u>	<u>-</u>
REVENUES OVER EXPENSES	<u>\$ 27,438</u>	<u>\$ 195,382</u>	<u>\$ 167,944</u>	<u>\$ 155,122</u>

NOTE: Budget data is presented for informational purposes only.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Sewer System

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
REVENUES				
Charges for services				
DeWitt Charter Township	\$ 1,529,050	\$ 1,532,702	\$ 3,652	\$ 2,261,288
Bath Charter Township	787,456	786,607	(849)	715,027
City of DeWitt	305,566	309,220	3,654	332,371
Watertown Charter Township	276,015	310,201	34,186	542,162
Other	-	12,121	12,121	11,663
TOTAL REVENUES	2,898,087	2,950,851	52,764	3,862,511
EXPENSES				
Direct allocation (DA) -				
DeWitt Charter Township				
Salaries	78,003	73,404	4,599	68,981
Benefits	23,249	19,718	3,531	17,386
Motor vehicle and mileage	9,800	8,117	1,683	9,080
Professional services	1,500	88	1,412	724
Utilities	20,000	17,904	2,096	16,073
Repairs and maintenance	25,000	23,159	1,841	14,195
Collection system repairs	101,000	65,916	35,084	64,981
Odor Control	10,000	6,443	3,557	1,763
Equipment depreciation	5,252	5,070	182	5,252
Total DA - DeWitt Charter Township	273,804	219,819	53,985	198,435
Direct allocation (DA) -				
Bath Charter Township				
Salaries	84,150	75,259	8,891	87,002
Benefits	25,080	21,833	3,247	24,771
Motor vehicle and mileage	11,200	9,277	1,923	9,728
Professional services	1,000	178	822	-
Utilities	65,000	64,349	651	56,126
Repairs and maintenance	55,000	42,543	12,457	59,034
Collection system repairs	32,500	31,661	839	20,573
Odor control	40,000	46,832	(6,832)	19,112
Equipment depreciation	16,858	17,510	(652)	16,858
Refund to municipality	-	61,590	(61,590)	232,418
Total DA - Bath Charter Township	330,788	371,032	(40,244)	525,622

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
EXPENSES - CONTINUED				
Direct allocation (DA) -				
City of DeWitt				
Salaries	\$ 22,079	\$ 15,499	\$ 6,580	\$ 19,703
Benefits	6,579	3,394	3,185	4,965
Motor vehicle and mileage	1,750	1,449	301	2,270
Professional services	500	-	500	-
Utilities	17,000	14,221	2,779	13,549
Repairs and maintenance	4,000	3,378	622	3,299
Collection system repairs	50,000	28,389	21,611	18,689
Equipment depreciation	1,921	1,921	-0-	1,921
Total DA - City of DeWitt	103,829	68,251	35,578	64,396
Direct allocation (DA) -				
Watertown Charter Township				
Salaries	25,812	21,877	3,935	18,888
Benefits	7,693	4,530	3,163	4,334
Motor vehicle and mileage	2,450	2,029	421	2,270
Professional services	500	-	500	276
Utilities	5,500	6,724	(1,224)	5,501
Repairs and maintenance	7,000	7,585	(585)	7,432
Collection system repairs	21,500	12,854	8,646	15,716
Odor control	5,000	5,941	(941)	453
Equipment depreciation	1,921	1,921	-0-	1,921
Refund to municipality	-	54,675	(54,675)	52,432
Total DA - Watertown Charter Township	77,376	118,136	(40,760)	109,223
Operation and maintenance				
Salaries	248,628	268,617	(19,989)	252,979
Benefits	49,174	47,008	2,166	60,814
Supplies	22,000	18,766	3,234	17,667
Motor vehicle and mileage	3,500	2,899	601	3,243
Insurance	95,000	83,626	11,374	84,258
Insurance - hospitalization	80,021	63,709	16,312	61,156
Insurance - workers' compensation	12,000	11,060	940	11,237
Insurance - dental	8,618	5,797	2,821	5,656
Insurance - long-term disability	8,716	7,136	1,580	6,204
Utilities	52,000	57,245	(5,245)	51,244
Repairs and maintenance	90,000	88,486	1,514	86,467

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
EXPENSES - CONTINUED				
Operation and maintenance - continued				
Miscellaneous	\$ 5,550	\$ 3,464	\$ 2,086	\$ 3,365
Equipment depreciation	87,668	144,142	(56,474)	87,240
Capital improvements	62,000	-	62,000	-
Total operation and maintenance	824,875	801,955	22,920	731,530
Authority administration				
Commissioner salaries	13,000	11,885	1,115	11,030
Employee salaries	106,307	100,289	6,018	89,197
Benefits	32,678	36,710	(4,032)	26,562
Education and training	8,000	8,370	(370)	6,030
Supplies	3,000	2,514	486	2,505
Motor vehicle and mileage	1,750	1,449	301	1,621
Professional services	40,000	28,089	11,911	33,566
Legal ads	5,500	1,503	3,997	1,412
Miscellaneous	2,400	1,697	703	381
Total administration	212,635	192,506	20,129	172,304
Processing				
Salaries	189,971	187,607	2,364	171,466
Benefits	56,619	69,489	(12,870)	61,287
Education and training	15,000	15,334	(334)	14,100
Office supplies	4,500	3,938	562	3,699
Process supplies	66,000	47,878	18,122	48,524
Motor vehicle and mileage	2,800	2,319	481	2,594
Professional services	40,000	22,839	17,161	16,657
Utilities	145,000	166,711	(21,711)	146,136
Regulatory fees	9,500	8,864	636	8,371
Repairs and maintenance	78,000	73,418	4,582	51,903
Solids handling	80,000	60,884	19,116	55,835
Miscellaneous	1,000	862	138	332
Capital improvements	144,000	-	144,000	-
Equipment depreciation	134,673	135,068	(395)	68,130
Total processing	967,063	795,211	171,852	649,034

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL - CONTINUED

Sewer System

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
EXPENSES - CONTINUED				
Lift stations (LS) - DeWitt and Bath Charter Townships				
Salaries	\$ 8,817	\$ 8,520	\$ 297	\$ 9,928
Benefits	2,629	2,710	(81)	2,605
Motor vehicle and mileage	700	580	120	649
Utilities	28,000	30,035	(2,035)	25,980
Repairs and maintenance	16,000	8,181	7,819	24,706
Odor control	15,000	-	15,000	7,611
Collection system repairs	45,000	36,056	8,944	16,806
Equipment depreciation	7,039	6,624	415	7,039
Total processing LS - DeWitt and Bath Charter Townships	123,185	92,706	30,479	95,324
TOTAL EXPENSES	2,913,555	2,659,616	253,939	2,545,868
REVENUES OVER (UNDER) EXPENSES	\$ (15,468)	\$ 291,235	\$ 306,703	\$ 1,316,643

NOTE: Budget data is presented for informational purposes only.

Southern Clinton County Municipal Utilities Authority

STATEMENT OF REVENUES AND EXPENSES - BUDGET AND ACTUAL

Industrial Pretreatment Program

Year Ended December 31, 2007

With Actual Amounts for Year Ended December 31, 2006

	Amended Budget	2007 Actual	Variance Favorable (Unfavorable)	2006 Actual
REVENUES				
Charges for services	\$ 23,547	\$ 29,811	\$ 6,264	\$ 23,579
EXPENSES				
Salaries	8,000	6,572	1,428	5,206
Benefits	3,297	2,075	1,222	1,350
Supplies	1,000	1,919	(919)	173
Professional services	2,500	1,707	793	7,383
Laboratory fees	5,200	1,415	3,785	7,725
Motor vehicle and mileage	1,050	870	180	973
Education and training	2,000	1,543	457	1,927
Legal ads	500	-	500	-
TOTAL EXPENSES	23,547	16,101	7,446	24,737
REVENUES OVER (UNDER) EXPENSES	\$ -0-	\$ 13,710	\$ 13,710	\$ (1,158)

NOTE: Budget data is presented for informational purposes only.

Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED
ON AN AUDIT OF THE FINANCIAL STATEMENTS**

To the Board of the
Southern Clinton County Municipal Utilities Authority
DeWitt, Michigan

We have audited the accompanying financial statements of the Southern Clinton County Municipal Utilities Authority, as of and for the year ended December 31, 2007, and have issued our report thereon dated March 28, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Southern Clinton County Municipal Utilities Authority's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. In addition, because of inherent limitations in internal control, including the possibility of management override of controls, misstatements due to error or fraud may occur and not be detected by such controls. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal controls. We identified the following control deficiencies that we consider to be significant deficiencies in internal control over financial reporting:

BANK RECONCILIATIONS AND AUTHORIZED CHECK SIGNERS

During the course of our audit, we noted that completed reconciliations are not periodically reviewed by an independent member of management. Additionally, it was noted that the employee who performs the bank reconciliations is presently an authorized check signer on the bank accounts being reconciled. Management's independent review is a process of internal controls affected by an entity's board of directors, management, and other personnel and designed to provide reasonable assurance regarding the achievement of objectives in the following categories: (a) reliability of financial reporting, (b) effectiveness and efficiency of operations, and (c) compliance with applicable laws and regulations.

BANK RECONCILIATIONS AND AUTHORIZED CHECK SIGNERS - CONTINUED

- a. *Control environment* sets the tone of the SCCMUA, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. *Risk assessment* is the entity's identification and analysis of relevant risk to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- d. *Information and communication* systems support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

The review of completed bank reconciliations is a significant part of the internal controls of the SCCMUA. We recommend that completed bank reconciliations be periodically reviewed by an independent member of management and tied to the computerized general ledger. The review should be documented with the reviewer's initials and date of review and be retained for audit purposes.

Additionally we recommend that bank reconciliations be performed by an employee who is not an authorized check signer on the bank accounts being reconciled.

PREPARATION OF FINANCIAL STATEMENTS

Governmental entities are required to prepare financial statements in accordance with generally accepted accounting principles (GAAP). Responsibility for the financial statements of the Authority rests with the Authority's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting financial statements, including the related note disclosures (i.e., external financial reporting).

It has historically been common for many small to medium-sized governments to rely on the independent auditors to assist in the preparation of the financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. By definition, independent auditors cannot be part of the government's internal controls.

The condition noted in the preceding paragraph exists at the Southern Clinton County Municipal Utilities Authority. The cause for this condition is simply because it is more cost effective to outsource the preparation of its annual financial statements to the independent auditors than to incur the time and expense of having the employees and/or management obtain the necessary training and expertise required to perform this task internally.

Statement on Auditing Standards No. 112 titled "*Communicating Internal Control Related Matters Identified in an Audit*," requires us to communicate when a client requires assistance in the preparation of financial statements and the related footnotes that are required in accordance with accounting principles generally accepted in the United States of America. We are communicating these circumstances as required by professional standards; however we do not see a need for any change in the situation at this time.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters.

This report is intended solely for the information and use of management and the Board of the Southern Clinton County Municipal Utilities Authority, others within the organization, and applicable departments of the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

March 28, 2008